LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7094 **NOTE PREPARED:** Feb 2, 2010
BILL NUMBER: HB 1241 **BILL AMENDED:** Feb 1, 2010

SUBJECT: Aircraft Registration and Airport Development Zones.

FIRST AUTHOR: Rep. Van Haaften **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Hershman

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) *Aircraft Registration Without Paying Use Tax*: This bill permits the registration of an aircraft without the payment of the state use tax if: (1) the aircraft was registered in another state as of January 1, 2010, and the Sales or Use Tax, if any, was paid to the registration state; and (2) the aircraft is registered in Indiana on or before December 31, 2010, and the registration fee and excise tax are paid for 2010.

Airport Development Zones: The bill allows the board of aviation commissioners or the board of an airport authority, as applicable, of any county, city, town, or other municipal corporation that may operate an airport to designate territory within its jurisdiction as an airport development zone, except that in a county having a consolidated city, the designating body continues to be the metropolitan development commission acting as the redevelopment commission of the consolidated city. (Current law authorizes only selected cities and counties to designate an airport development zone, including a county having a consolidated city.)

Effective Date: July 1, 2010.

Explanation of State Expenditures: (Revised) *Department of State Revenue (DOR)*: It is estimated that the DOR will be able to implement these provisions with its existing level of resources.

Explanation of State Revenues: *Aircraft Registration Without Paying Use Tax*: This bill creates a window of six months where an owner of an aircraft that is located in another state may register in Indiana without paying the difference in the Sales tax paid to that state and the Indiana Use tax rate. Currently, when an aircraft is registered in the state of Indiana, the owner gets a credit for the Sales tax paid to another state and would have to pay any difference in Use tax. The owner would also have to pay the registration fee and aircraft excise tax.

This bill could decrease Use Tax revenue on these transactions and increase aircraft registration fees, aircraft license excise taxes, and sales tax on fuel purchased by these aircraft by an indeterminable amount. The impact would depend on the number of aircraft that are relocated during this six-month window.

Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

(Revised) *Airport Development Zones*: This bill allows the board of aviation commissioners or the board of an airport authority, as applicable, of any county, city, town, or other municipal corporation to designate areas within their territories as airport development zones. If so designated, several tax incentives would be available for the airport areas that are available to enterprise zones, including the Employment Tax Deduction, the Employment Expense Credit, the Loan Interest Credit, the Neighborhood Assistance Credit, and the Investment Cost Credit. These incentives may be taken against Adjusted Gross Income (AGI), Financial Institutions, or the Insurance Premiums Tax liabilities, which would serve to reduce revenue to the General Fund by an indeterminable amount.

Background Information -

(Revised) *Employee Tax Deduction*: This tax deduction is for qualified employees of an enterprise zone business. The qualified employee is an individual who is employed by a taxpayer where the employee's principal place of residence is in the enterprise zone where the employee is employed. Qualified employees include employees of a financial institution, insurance company, and an international banking facility. Also included are employees of a nonprofit entity, the state, a political subdivision, or the United States Government. The qualified employee is entitled to a deduction from their AGI equal to the lesser of; (1) half of the AGI for the taxable year earned as a qualified employee; or (2) $7,500.

In tax year 2007, 38 individuals claimed about $240,000 in deductions for qualified airport development zones.

(Revised) *Employment Expense Credit*: This credit is for employers that hire qualified employees that live and work half of the time in the enterprise zone. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or $1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year. The tax credit can be carried forward for 10 years or carried back for 3 years.

For tax year 2007, 5 individuals claimed about $8,400 in credits for qualified airport development zones, and 40 corporate taxpayers claimed about $872,000 in Employment Expense Credits for qualified enterprise zones.

(Revised) *Loan Interest Credit*: The Loan Interest Credit is a nonrefundable tax credit that a taxpayer may claim against the AGI Tax, the Financial Institutions Tax, or the Insurance Premiums Tax. It is equal to 5% of the interest a taxpayer receives during the taxable year on qualified loans to businesses or individuals for specified uses in an enterprise zone. The credit can be carried forward for 10 years.

In tax year 2007, 75 individual taxpayers claimed about $77,000 in Loan Interest Credits for qualified airport development zones. Twenty corporate taxpayers claimed about $2.5 M in credits for qualified enterprise zones for tax year 2007.

(Revised) *Neighborhood Assistance Credit*: The Neighborhood Assistance Credit is for Indiana taxpayers who contribute to individuals, groups, or neighborhood organizations or who engage in activities to upgrade economically disadvantaged areas for economically disadvantaged households. This credit is limited to the lesser of 50% of the amount contributed or invested, state income tax due, or $25,000 in any taxable year. The credit can be applied against the taxpayer's AGI tax or Financial Institutions Tax liabilities. The tax credit may not be refunded, carried back, or carried forward. The total amount of Neighborhood Assistance Credit allowed to all taxpayers in any state fiscal year is limited to $2.5 M.

In tax year 2007, 3,488 individual taxpayers claimed about $2.2 M in credits. For tax year 2007, 6 corporate taxpayers claimed about $19,000 in Neighborhood Assistance Credits.

(Revised) *Investment Cost Credit*: Under current statute, the Investment Cost Credit may be claimed against the AGI Tax by taxpayers purchasing an ownership interest (an equity investment) in an enterprise zone business. The Investment Cost Credit is equal to a maximum of 30% of the equity investment. The credit percentage allowed (up to 30%) varies depending upon the type of investment, the type of business, and the number of jobs created. The credit is nonrefundable, but a taxpayer may carry over excess credits to subsequent taxable years.

In tax year 2007, 40 individual taxpayers claimed about $170,000 in credits. One corporate taxpayer claimed about $1,300 in Investment Cost Credits.

Revenue from the AGI Tax on individuals and corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

(Revised) *Airport Development Zones*: IC 8-22-3.5-1 authorizes the following areas to establish airport development zones:
(1) Marion County;
(2) City of Gary, IN;
(3) Vigo County;
(4) Allen County;
(5) Vanderburgh County;
(6) Delaware County; and
(7) City of Anderson, IN.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Aircraft Registration Without Paying Use Tax*: Aircraft License Excise Tax is distributed to the county where the aircraft is located.

(Revised) *Airport Development Zones*: If new areas are designated as airport development zones, businesses located in the zones will have to pay a fee equal to the amount required for enterprise zone businesses, which is currently 1% of the tax incentives claimed. This fee would be deposited in the debt service fund established for the airport development zones.

Because the employee tax deduction would decrease taxable income, counties imposing local option income taxes may experience a decrease in revenue as a result if areas within the counties are designated as airport development zones.

State Agencies Affected: DOR.

Local Agencies Affected: Counties.

Information Sources:

Fiscal Analyst: Diane Powers, 317-232-9853; Jessica Harmon, 317-232-9854.